Progress Energy

October 23, 2008

The Honorable Charles Terreni
Chief Clerk/Administrative
Public Service Commission of South Carolina
P. O. Drawer 11649
Columbia, South North Carolina 29211

RE: Motion for Waiver of Commission Rule 103-331

Dear Mr. Terreni:

Please find enclosed for filing Progress Energy Carolinas, Inc.'s Motion for Waiver of Commission Rule 103-331.

Very truly yours,

Len S. Anthony

Len S. Anthony, General Counsel
Progress Energy Carolinas, Inc.

LSA:mhm

Enclosure

267998 v2

Progress Energy Service Company, LLC
P.O. Box 1551
Raleigh, NC 27602

STATE OF SOUTH CAROLINA
BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2008-___-E

In the Matter of:	)	
	)	**PROGRESS ENERGY**
Progress Energy Carolinas, Inc.'s	)	**CAROLINAS, INC.'S MOTION FOR**
Motion for Waiver of Commission	)	**WAIVER OF COMMISSION**
Rule 103-331	)	**RULE 103-331**

Pursuant to the Public Service Commission of South Carolina's ("the Commission") Rules 103-819, 103-820, 103-829 and 103-331, Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. ("PEC") moves the Commission for a waiver of Rule 103-331 and for permission to obtain a security deposit or other form of payment assurance from its customer Pilgrim's Pride Corporation ("Pilgrim"). In support thereof, PEC shows the following:

1. PEC is an electric utility incorporated in the State of North Carolina authorized to conduct business and provide electric service to the citizens of South Carolina. PEC generates, transmits, and distributes electric service in its service territories in North and South Carolina. Its principal office is located at 410 South Wilmington Street, Post Office Box 1551, Raleigh, NC 27602.

2. The attorney for PEC, to whom all communications and pleadings should be addressed, is:

Len S. Anthony
General Counsel
Progress Energy Carolinas, Inc.
Post Office Box 1551, PEB 17A4
Raleigh, North Carolina 27602
(919) 546-6367

3. Pilgrim is a large industrial customer served by PEC located in Sumter, South Carolina. Its average monthly electric bill is in excess of $440,000. PEC currently does not have a security deposit or any other form of payment assurance associated with Pilgrim's account.

4. As explained in the attached Wall Street Journal article dated October 17, 2008, Pilgrim is in severe financial difficulty. It suffered a $53 million loss in the third quarter of 2008 and expects to report a "significant loss" for the fourth quarter of 2008. As the article notes, there is some speculation that it may be forced to file for bankruptcy in the near future.

5. Pursuant to the laws and regulations of North Carolina and Florida, PEC has requested and received from Pilgrim security deposits or other forms of payment guarantee with regard to Pilgrim's operations in North Carolina and Florida. PEC has requested such a payment guarantee or other form of payment assurance from Pilgrim with regard to its South Carolina operations. However, Pilgrim has refused to provide such payment assurance explaining that its providers of letters of credit or other guarantees have refused to provide any such further payment assurances.

6. Commission Rule 103-331 only allows an electric utility to require a customer to provide a deposit if the customer's past payment record shows delinquent payment practice or the customer is currently delinquent in payments. Pilgrim's payment history does not reflect any such delinquent payment practices and its account is presently current. Therefore, PEC cannot require Pilgrim to provide a security deposit or other form of payment assurance as a condition of continued service.

7. Given Pilgrim's publicly documented financial distress as well as information obtained by PEC through its consultation with various credit rating agencies, it is imperative that PEC obtain proper payment assurances in the form of a security deposit from Pilgrim's with regard to its South Carolina operations. If Pilgrim is unable to pay its monthly electric bills, the unpaid delinquent balance could easily exceed $1 million. PEC's remaining customer body would ultimately be responsible for the payment of this uncollectible receivable. Therefore, it is in the best interest of PEC and its customer body to properly secure the Pilgrim account.

8. The urgency and reasonableness of this request if confirmed by PEC's recent experience with another large South Carolina industrial customer. Blumenthal Mills in Marion recently declared bankruptcy. They have an existing one month billing balance of $205,376.23. Their account was current with no delinquent payment practices.

WHEREFORE, PEC moves the Commission for a waiver of Commission Rule 103-331 and authority to require Pilgrim to pay a security deposit in the amount of two months' average monthly bill as a condition for the continued provision of electric service by PEC to the Pilgrim's Pride facility located at Sumter, South Carolina.

Respectfully submitted this 23rd day of October, 2008.

PROGRESS ENERGY CAROLINAS, INC.

Len S. Anthony /mhm

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General Counsel
Post Office Box 1551, PEB 17A4
Raleigh, North Carolina 27602

Debt Woes, Feed Costs Come Home To Roost At Pilgrim

BY LAUREN ETTER AND JEFFREY MCCRACKEN

Two years ago, Lonnie "Bo" Pilgrim fulfilled what he believed to be a mission from God: He bought rival Gold Kist Inc. for $1.1 billion and turned his Pilgrim's Pride Corp. into the world's largest chicken company.

Today, the 80-year-old Mr. Pilgrim is watching his Texas-based poultry empire struggle to stay afloat. Hammered by rising prices for feed, falling prices for chicken and an increasingly untenable debt load, Pilgrim's Pride saw a $53 million fiscal-third-quarter loss. It expects to report a "significant loss" for its fourth quarter.

Amid a near-frozen credit market, Pilgrim's Pride now finds itself grasping for a lifeline. A troupe of bankers is trying to restructure the company and refinance its debt—something that might have been more feasible during the era of easy credit just two years ago. But, like many other companies hoping to refinance, Pilgrim's Pride is discovering that banks have gotten a lot tougher about lending. Compounding its difficulties, some suppliers are demanding new payment terms, such as payment on delivery or even in advance.

The company may yet pre-

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vail: It is also in talks with potential investors including hedge funds and private-equity groups, and it points to a recent drop in corn prices as a light at the end of the tunnel. Prices have come down by about 50%, to just under $4 a bushel, since the summer. Analysts expect the poultry industry to rebound by 2010, as it cuts production and chicken prices rise. The cyclical nature of the agricultural business is one reason why lenders in the sector tend to be more lenient—another factor in Pilgrim's Pride's favor.

But if the company can't raise money or extract concessions from its lenders, it could be forced to seek bankruptcy-court protection, say two people familiar with the matter. Such a filing could be used to help expedite a sale of the company, these people say. In early October, Pilgrim's Pride retained the firm of Weil Gotshal & Manges LLP as bankruptcy counsel. It has also been trying to line up "debtor-in-possession" financing, which companies use to fund operations while they reorganize under court protection.

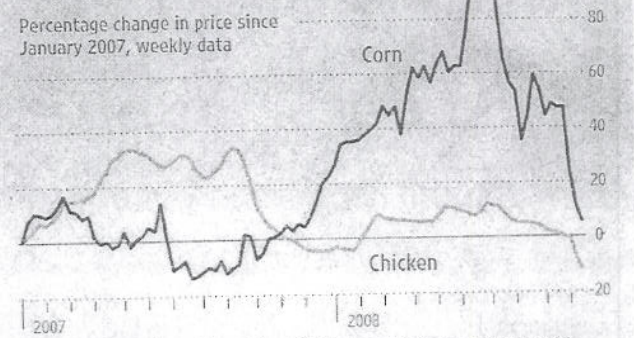
Mr. Pilgrim and other top executives declined requests to be interviewed for this article. In an email, Gary Rhodes, a company spokesman, said, "We don't believe that a bankruptcy filing would be in anyone's best interest, certainly not for our lenders, nor for our company or investors." Mr. Rhodes said the company has "been focused on developing a comprehensive business plan" that will address "the financial and operational challenges...currently facing Pilgrim's Pride and the broader industry."

People involved in the talks say Mr. Pilgrim is fighting to keep the 60-year-old company alive. His 25.3 million shares of Pilgrim's Pride account for 34% of the total shares outstanding and are worth about $100 million today, according to Capital IQ, a division of Standard & Poor's Corp.

Mr. Pilgrim got his start at his brother's feed store during the 1940s, driving a truck for 50 cents an hour. He took over Pilgrim's Pride in 1966, and the company went public 20 years later. In public appearances, he often wears a black, buckled pilgrim hat and carries a stuffed chicken under his arm that he calls Henrietta. He lives in a French-style château outside of Pittsburg, Texas, that locals refer to as Cluckingham Palace.

Pecking Away at Profits

While Pilgrim's Pride labored under heavy debt, feed prices jumped and chicken prices lagged.



Note: Corn futures prices on Chicago Board of Trade, front-month contract; Georgia Dock quoted prices for boneless, skinless chicken breast

Sources: Thomson Reuters via WSJ Market Data Group (corn); Georgia Department of Agriculture (chicken)

A bust of **Lonnie 'Bo' Pilgrim**, wearing his trademark pilgrim hat, at the Pittsburg, Texas, headquarters of Pilgrim's Pride.

Pilgrim's Pride is analyzing the potential sale of assets, including its Mexican operations, various poultry plants and some real estate, but no decisions have been made, say two people familiar with the matter. Two potential suitors are Tyson Foods Inc. and the Mexican chicken-and-egg company Industrias Bachoco SA, these people say. Tyson declined to comment. Industrias Bachoco didn't return calls seeking comment.

Competitor Sanderson Farms Inc. announced last week that it will sell as much as $1 billion of common or preferred stock to raise money for acquisitions in case assets in the poultry industry become available. Many "industry players are losing a lot of money," says Mike Cockrell, chief financial officer at Sanderson. "If something did present itself, it made sense to us to have something on the shelf to pull down quickly."

For Mr. Pilgrim and his company, time is running short. Pilgrim's Pride has until Oct. 28 to negotiate a deal with lenders. Also looming is a $25.7 million bond payment that's due next month.

Some investors have lost confidence in Pilgrim's Pride, which employs about 50,000 people across the South and Southwest. Its shares were trading at $3.23 Thursday, down from $33 a year ago. Pilgrim's Pride has borrowed $650 million through two separate bond issues. One class of bonds now trades at around 39 cents on the dollar, a level at which investors believe a default is as likely as not, according to data supplied by Robert W. Baird & Co., a Chicago investment bank. The other class of bonds has traded slightly higher at around 54 cents on the dollar partly in response to Sanderson's statement it was looking for acquisitions, according to Standard & Poor's.

Like most companies in the poultry industry, Pilgrim's Pride has been squeezed between rising prices for feed—principally corn—and falling prices for chicken because of a glut in the market. The company says its feed-grain prices will increase by $900 million this year, though they could drop next year. The wholesale price for boneless, skinless chicken breasts, meanwhile, has dropped to about $1.22 a pound now from about $1.45 a year ago.

The economic downturn is exacerbating the situation as consumers cut back on dining out. That's weakening demand for chicken at restaurants and fast-food chains. "These are unprecedented times for the poultry industry," says Adriaan Weststrate, head of Rabobank Group's Eastern U.S. corporate-food and agribusiness lending.

Also in the mix: Pilgrim's Pride's heavy debt load. In addition to paying $1.1 billion—much of it borrowed—to acquire Gold Kist, the company took on $144 million of Gold Kist debt. That left Pilgrim's Pride with a 10-to-1 debt-to-earnings ratio, compared with about 4-to-1 at Tyson, according to Moody's Investors Service. Moody's lowered Pilgrim's credit rating late last month to B2, four notches below Tyson's, and has it under review for a further downgrade.

At the time of the Gold Kist purchase, Mr. Pilgrim, a devout man, said that the "Lord had foreordained the deal." In the 2007 second edition of his autobiography, "One Pilgrim's Progress," he wrote: "I figured that if the Lord wanted us to succeed, He would help us find the credit."

Back then, credit came easy. The company was able to get financing for the deal through Lehman Brothers Holdings Inc. and Colorado-based CoBank. But now many industry analysts say Pilgrim's Pride paid the wrong price for Gold Kist at the wrong time.

In 2006, right around the time of the acquisition, the price of grain began climbing in tandem with growing demand for both grain and corn-based ethanol. By June 2007, corn-futures prices had increased to more than $4 a bushel, 30% higher than the previous year. Over the next year, corn's price fluctuated wildly, making it difficult for businesses to bet on the direction of grain prices. The volatility caught Pilgrim's Pride off guard.

This past June, corn-futures prices on the Chicago Board of Trade hit near $8 a bushel on fears that flooding in the Midwest would damage crops. Worried that prices would go even higher, Pilgrim's risk-management team locked in some feed prices while corn was trading at around $8 a bushel.

That turned out to be a bad bet. As the economy weakened and the damage from the floods turned out to be less extensive than expected, corn prices retreated to about $5 a bushel. Nonetheless, Pilgrim's was stuck paying the higher price for a few months.

As the end of the company's fiscal fourth quarter approached, the situation had deteriorated. Late on the afternoon of Sept. 24, the company's stock plunged 38% before being halted amid rumors of looming financial difficulties.

The next morning the company gave its warning of a fourth-quarter loss to investors at the behest of its banks. It blamed high feed costs, weak chicken demand and bad bets on the corn market. That day Pilgrim's stock tumbled 40% to $3.84 a share. The stock has since traded between $2 and $4, and suppliers have tightened their payment terms.

Lonnie 'Bo' Pilgrim

Late last month, Pilgrim's Pride hired Bain & Co. to restructure its operations and Lazard Ltd. to refinance the business and negotiate with lenders.

"Particularly in this market, lenders are less willing to provide incremental liquidity to let a business operate and keep incurring losses," says Michael Henkin, co-head of Jefferies & Co.'s recapitalization and restructuring group, which isn't involved in the Pilgrim's Pride negotiations. In addition, banks are asking for interest rates that are substantially higher than they were a year ago.

Already Pilgrim's Pride has laid off more than 2,000 workers and shut down production and distribution facilities across the South. Further cuts or asset sales are likely to require the backing of Mr. Pilgrim himself, who remains deeply involved in the company. He retired as the company's chief executive in 1998 after holding that position for 30 years, and was chairman of the board until last year.

Since then, he has held the title of senior chairman of the board. Together with his wife, Patricia, and son, Lonnie Ken, Mr. Pilgrim controls 62% of the voting power of the company's shares outstanding, meaning he helps choose managers and steer the direction of the company. As a member of the compensation committee, he also recommends salaries and bonuses, including his own.

Last year, as corn prices were soaring, the compensation committee awarded him a 6% raise to a base salary of $1.5 million. Mr. Pilgrim's total compensation last year, including bonuses, was $3.2 million, more than double the compensation package of the CEO.

In addition, he earned $885,000 in fees for growing company-owned chickens to full size on his farm. Other company executives also grow chickens for Pilgrim's Pride, essentially acting as contractors.

In its filings, the company says these transactions are "on terms substantially the same as contracts we enter into with unaffiliated parties."

Pilgrim's Pride wouldn't comment on Mr. Pilgrim's compensation. Mr. Pilgrim, who taught Sunday school classes for decades, recently disclosed what he calls his 60-second business plan to students at Howard Payne University in Brownwood, Texas.

"It's the plan we use at our company," Mr. Pilgrim told the students, according to local press accounts. "God, first. Family, second. Company, third. And sales, fourth."

—Joel Millman contributed to this article.